

NAHMA TOWNSHIP WATER SUPPLY SYSTEM

REPORT ON (Delta) FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name NAHMA TOWNSHIP WATER SYSTEM	County DELTA
Audit Date MARCH 31, 2004	Opinion Date MAY 10, 2004	Date Accountant Report Submitted to State: MAY 10, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan, as required by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

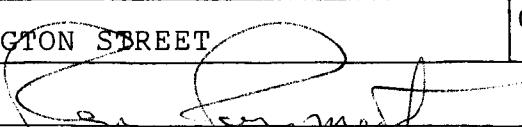
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 1217 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			

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May 10, 2004

INDEPENDENT AUDITOR'S REPORT

Honorable Township Board  
Nahma Township Water Supply System  
Delta County, Michigan

I have audited the comparative balance sheets of the Water Supply System of Nahma Township as of March 31, 2004 and 2003, and the related statements of comparative revenues and expenditures, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Township management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.


Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's activities, business-type activities, and discretely presented component units are not reasonably determinable.

In my opinion because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township of Nahma Water Supply System, as of March 31, 2004, or the changes in its financial position or its cash flows, where applicable for the year then ended.

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these

May 10, 2004

basic financial statements taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the financial position and results of operations, are presented primarily for supplemental analysis purposes. This additional information has been subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ray L. Payment  
Certified Public Accountant

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May 10, 2004

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
"GOVERNMENT AUDITING STANDARDS"

Nahma Township Board  
Nahma Township Water Supply System  
Delta County, MI

I have audited the general purpose financial statements of Nahma Township Water System as of and for the year ended March 31, 2004, and have issued my report thereon dated May 10, 2004. I conducted my audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Nahma Township's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit I considered Nahma Township's internal control over financial reporting in order to determine my audit procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matter in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a

May 10, 2004

relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read 'Ray L. Payment', is written over the printed name.

Ray L. Payment  
Certified Public Accountant

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
COMPARATIVE BALANCE SHEETS  
MARCH 31, 2004 AND 2003

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<u>ASSETS</u>	<u>Year Ended</u> <u>2004</u>	<u>March 31,</u> <u>2003</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Property, plant and equipment	\$ 699 419	\$ 699 419
Less accumulated depreciation	<u>(253 235)</u>	<u>(239 247)</u>
Net property and equipment	<u>446 184</u>	<u>460 172</u>
RESTRICTED ASSETS:		
Bond and Interest Redemption Fund:		
Cash on deposit	1 223	1 909
CURRENT ASSETS:		
Cash on deposit	1 089	2 693
Accounts Receivable	<u>3 492</u>	<u>2 802</u>
TOTAL ASSETS	<u>\$ 451 988</u>	<u>\$ 467 576</u>
 <u>LIABILITIES, DEFERRED CREDITS AND RETAINED EARNINGS</u>		
RETAINED EARNINGS	\$ 11 356	\$ 11 921
LONG-TERM DEBT (Note 2):		
Revenue bonds payable - noncurrent portion	14 000	16 000
CURRENT LIABILITIES:		
Maturing bonds payable	2 000	2 000
Accounts payable	337	490
CONTRIBUTIONS IN AIDE OF CONSTRUCTION	643 496	643 496
LESS AMORTIZATION OF CONTRIBUTIONS	<u>(219 201)</u>	<u>(206 331)</u>
TOTAL LIABILITIES, DEFERRED CREDITS, CONTRIBUTIONS AND RETAINED EARNINGS	<u>\$ 451 988</u>	<u>\$ 467 576</u>

See accompanying notes to financial statements.



NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES  
YEAR ENDED MARCH 31, 2004 AND 2003

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	Year Ended 2004	March 31, 2003
OPERATING REVENUES:		
Water sales and hydrant rent	\$ 13 834	\$ 14 345
Total operating revenues	<u>13 834</u>	<u>14 345</u>
OPERATING EXPENDITURES:		
Depreciation (Note 2)	13 988	13 988
Utilities	4 449	2 338
Salaries and wages	3 062	3 018
Operating supplies and maintenance	4 695	3 674
Insurance	25	1 263
Office supplies and miscellaneous	147	129
Payroll taxes	<u>71</u>	<u>-</u>
Total operating expenses	<u>26 437</u>	<u>24 410</u>
Operating income (loss)	( 12 603)	(10 065)
NONOPERATING INCOME (EXPENSE):		
Interest income	23	25
Interest expense	<u>( 855)</u>	<u>( 950)</u>
NET INCOME (LOSS) BEFORE AMORTIZATION OF CONTRIBUTED CAPITAL	<u>( 13 435)</u>	<u>\$(10 990)</u>
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisitions that reduces contributed capital	<u>12 870</u>	<u>12 870</u>
NET INCOME (LOSS)	<u>\$ ( 565)</u>	<u>\$ 1 880</u>

See accompanying notes to financial statements.

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
COMPARATIVE STATEMENT OF RETAINED EARNINGS  
YEAR ENDED MARCH 31, 2004 AND 2003

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	Year Ended <u>2004</u>	March 31, <u>2003</u>
RETAINED EARNINGS, at beginning of period	\$ 11 921	\$ 10 041
ADD - Net income (loss) for the period	<u>( 565)</u>	<u>1 880</u>
RETAINED EARNINGS, at end of period	<u>\$ 11 356</u>	<u>\$ 11 921</u>

See accompanying notes to financial statements.

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
COMPARATIVE STATEMENT OF CASH FLOWS  
YEAR ENDED MARCH 31, 2004 AND 2003

	Year Ended 2004	March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) before amortization	\$ (13 435)	\$ (10 990)
Non-cash expenses included in net income:		
Depreciation	13 988	13 988
(INCREASE) DECREASE IN ASSETS:		
Accounts receivable	( 690)	-
INCREASE (DECREASE) IN LIABILITIES:		
Accounts payable	( 153)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	( 290)	2 998
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in plant and equipment	-	-
NET CASH USED BY INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in bonds payable	( 2 000)	( 2 000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	( 2 000)	( 2 000)
NET INCREASE (DECREASE) IN CASH	\$ ( 2 290)	\$ 998
CASH, BEGINNING OF PERIOD	4 602	3 604
CASH, END OF PERIOD	\$ 2 312	\$ 4 602
CASH CONSISTS OF:		
Operating Fund	\$ 1 089	\$ 2 693
Bond Redemption Fund	1 223	1 909
TOTAL CASH	\$ 2 312	\$ 4 602

See accompanying notes to financial statements.

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - METHOD OF ACCOUNTING

The Township Water Fund is maintained on a modified accrual basis.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

Fixed assets consisting of water mains and equipment are carried at cost. Depreciation is calculated over the estimated useful life of the fixed assets using the straight-line method.

NOTE 3 - REVENUE BONDS PAYABLE

The revenue bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund each quarter. At March 31, 2004 the required amount in this fund was \$690 and \$1,223 was on deposit.

NOTE 4 - BUDGET

The Water System prepares its budget using the accrual basis of accounting.

NOTE 4 - DESCRIPTION OF REPORTING ENTITY

This report includes all of the funds and account groups of the Water System. It includes all activities considered by the U.S. Bureau of Census to be part of the Water System. The General and other Funds of Nahma Township have been submitted under separate cover.

The School District is an independent district and not part of the Township. Financial data for it are not included in the financial statements of this report. However, audited financial statements for the School District are available upon request from its business office.

The Water System provides water services contemplated by statute or character.

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS

Deposits are carried at cost. Deposits of the Township are in two banks in the name of the Nahma Township Treasurer. Michigan Compiled laws, Section 124.91, authorizes the Township Treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Governmental National Mortgage Association; United States government or Federal agency obligation repurchase agreement; banker's acceptance of the United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority.

Governmental Accounting Standards Board (GASB) Statement 3 risk disclosure for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 2 312
TOTAL DEPOSITS	\$ 2 312

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NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 6 - PROPRIETARY FUND TYPE LONG-TERM DEBT

Debt service payments for the year ended March 31, 2004 were \$2,855, which included principal reduction of \$2,000. There were no additions to proprietary fund type long-term during the period.

The following summarizes total debt service requirements for principal and interest due within the next five years:

2005	\$ 2 760
2006	2 665
2007	2 575
2008	2 460
2009	2 285

NOTE 7 - PROPRIETARY FUND TYPE FIXED ASSETS

The following summarizes cost and accumulated depreciation of proprietary fund type fixed assets as of March 31, 2004.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Water Fund Distribution System	\$ 699 419	\$ 253 235	\$ 446 184

Changes in proprietary fund type fixed assets for the year ended March 31, 2004 are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Balances, April 1, 2003	\$ 699 419	\$ 239 247
Additions	-	13 988
Retirements	-	-
Balances, March 31, 2004	\$ 699 419	\$ 253 235

NAHMA TOWNSHIP WATER SUPPLY SYSTEM  
ANALYSIS OF INCOME AVAILABLE FOR DEBT RETIREMENT  
YEAR ENDED MARCH 31, 2004

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NET INCOME (LOSS) BEFORE AMORTIZATION			\$( 13 435)
ADD:			
Depreciation	\$ 13 988		
Interest expense on bonds	<u>855</u>	<u>14 843</u>	
Income available for bond and interest redemption			1 408
REQUIREMENTS:			
Interest	\$ ( 855)		
Bond retirement	<u>(2 000)</u>	<u>( 2 855)</u>	
EXCESS (DEFICIENCY) OF AVAILABLE INCOME OVER REQUIRED INCOME			<u>\$( 1 447)</u>